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## Control and Allocation of Expenses Under Abnormal Conditions\*

BY DONALD M. RUSSELL

This topic, the control and allocation of expenses, is one which suggests many different things to many different people. Entirely different pictures come to the minds of persons who may be operating standard cost systems and to those operating actual cost systems, to those dealing with commercial work, to those dealing 100 per cent with Government contracts and to those operating mixed commercial and Government production, to those starting new enterprises and to those having long established experience in cost standards and cost records. However, as was brought out in our meeting yesterday, we are all getting on somewhat common ground, due to the control of all of our economic life which has been assumed by the Government under these abnormal conditions.

Under the Executive Orders of the President (No. 9001, issued December 27, 1941, and No. 9127, issued April 10, 1942), Government officers have received very broad powers, both to re-negotiate con-

tracts and to audit the books and records of all contractors and subcontractors engaged in defense work under contracts entered into since September 8, 1939, so that our consideration of this topic is quite necessarily directed first to the Government interpretation of cost problems under war contracts.

I would like first to raise one or two questions which are of general accounting interest—the effect of the Government's definitions of cost, and the Government's conception of fixed fees, upon the general financial statements and their effect upon the determination of realized income available for dividends, to be reported to stockholders in the annual reports of corporations.

*Financial Statements:* We know that under the Government definitions we are permitted to include in cost, not only the usual manufacturing costs and expenses, but also a part of selling, administrative and general expenses. Ordinarily, selling, administrative and general expenses have nothing to do with inventory valuation; to put them

\*A paper presented at the Ohio University Institute of Accounting, May 16, 1942.

into the inventories is to defer a part of these expenses to a future period. How do we stand if we value our inventories according to the Government definitions, from the viewpoint of being consistent with last year, and from the viewpoint of determining realized income?

It is very well to say that perhaps we can put these elements of cost into the inventories and then take them out again for the financial statements, but that may be a very difficult thing to do, particularly if we are required or desire to keep costs by individual parts. Some of the contracts call for parts' costs as well as total contract costs. I would suggest, in preparation for handling this question, that it would be a good idea never to lose sight of the total gross cost put into a Government contract, even though we bill out our costs every month on public vouchers. We may need to know the total gross costs, cumulatively, at every closing date, because we may wish to make an estimated adjustment to convert Government-interpreted cost back to what we usually think of as cost. If this adjustment is made it will probably have to be done by the use of an over-all or an approximated percentage.

I think it would be well also, in handling these contract costs, to remove from the contract cost accounts items which are temporarily in dispute and put them into a sus-

pended cost account. That will serve two purposes—it will focus our attention upon doubtful items and it will also help us to keep the billings current. I believe some companies have already run into difficulties in having to make repeated analyses of open balances in contract cost accounts because of the differences between what they have charged into those accounts and what they have been able to "bill up" on public vouchers with the approval of the Government auditors. Therefore, I think it would be distinctly helpful to segregate disallowed items by classes in a suspense account for the purpose of keeping the record clean and keeping the unbilled balances current.

I am speaking about inventories as the proper term to describe unbilled costs on Government contracts. From some points of view perhaps the unbilled balances are accounts receivable. Under conditions where the Government takes title to all of the material, immediately upon disbursement of the funds, it may be that the costs incurred immediately become accounts receivable. However, in many cases, and particularly in smaller concerns acting as subcontractors, they must continue to handle these accounts as inventories, even though they are having to adopt Government interpretations of cost.

If a portion of selling, adminis-

trative and general expenses is to go into inventory, what is the proper treatment for the offsetting credit?

One method is to charge items directly out of selling, administrative and general expenses or to short-cut those accounts. If that is done, our selling, administrative and general expenses appear to be very much smaller than in the preceding accounting period, because part of them have gone directly over to the Government costs. Another method is to show the distributed amount in the selling, administrative and general expense section of the income account, as a special credit. Another way might be to show inventories of selling, administrative and general expenses at the beginning and end of the period, or to put into the income account the increase or decrease in the inventory of selling, administrative and general expenses includable in costs under the Government definitions.

All of these methods, however, result in getting that credit into the net income account, and reporting it as true income for the period; that is, income available for dividends. I suggest that we might give consideration to the procedure of crediting the item to a deferred account in the balance sheet and later adjusting that account by transfers to the credit of cost of sales proportionate to the transfers of the inventories to cost of sales.

The reason why that idea appeals

to me, at least theoretically, will be shown also by considering the nature of the fixed fees. We get into the idea of thinking of fixed fees allowed under cost-plus contracts as being the income or the profit from those contracts. As a matter of fact, the fixed fees have to include most of what we usually call selling expense, and a considerable share of what we call administrative and general expenses, and under the interpretation of T. D. 5000, the fixed fees usually have to cover interest which we ordinarily class as an "other deduction" in our income accounts, and also has to cover the federal income and excess profits taxes. Thus, the fixed fees really are closer to the gross income in our profit and loss statement than they are to net income.

Government contracts provide for many ways of billing or collecting these fixed fees. Some of them provide that we may bill them proportionately to the public vouchers. In that case we may spend 50 per cent of our total cost for materials in the first month or two of the contract, and immediately bill to the Government and collect our fixed fee. If that fixed fee is then taken into the income account directly it appears that we are anticipating the realization of net income. We are probably taking it into our income account too early. Under these circumstances should not the fixed fees also be credited when billed to a deferred

account in the balance sheet? The transfers of fixed fees plus the transfers of the credits for distributed selling, administrative and general expenses, at such times as shipments are made, would result in the recognition of realized income in a manner consistent with commercial practice. Of course, some contracts provide that the fixed fees may be collected upon shipments; that is more in step with commercial practice, and there perhaps would be no occasion in that type of procedure to use a deferred balance sheet account.

We should bear in mind, all through this talk, that, while I am basing most of it upon the Government procedures for cost-plus-fixed-fee contracts, our fixed prices are all subject to re-negotiation, and when we come to re-negotiate, the definitions of cost and the definitions of allowable profits are going to be the definitions of costs and fixed fees under the cost-plus-fixed-fee procedures.

*Negotiated Flat Charges:* We find frequently that negotiations have been made to avoid determining actual cost by using flat charges; for example, flat charges for purchasing and clerical expenses on construction contracts where general overhead expenses are not usually allowed. Flat charges may be applied to tool room orders in lieu of actual material, labor, overhead and profit, or we may find manage-

ment fees for operating a Government-owned plant. If the amounts are incidental and no profit is intended, they may be credited to the expense accounts for which they have been substituted. If significant in amount, however, it appears that the distributions of expense should be based upon the gross amounts of expenses incurred. The resulting difference between the flat allowance and the actual cost of the service rendered should be closed direct to profit and loss. Section 26.9 of T. D. 5000 provides that no *loss* on another contract shall be included in cost. Neither should the *profit*, if any, be credited to cost. This procedure would, moreover, furnish information as to the adequacy of the negotiated flat rates for use in subsequent negotiations.

*Standard or Normal Costs:* Particularly where commercial work is continued along with war work, the contractor will be fortunate if he already has in operation long-term standard costs. It would be most unfortunate if concerns which have developed, over the years, reliable cost *standards* and standard *costs* should abandon them now.

The added volume of operations results in decreased fixed costs per unit of commercial product. From the point of view of the cost standard, this should be recognized as an abnormal and temporary condition, and the standards should not be re-

vised downward for this reason. As pointed out by Mr. Lawrence Downie at the N. A. C. A. convention in 1940, such reductions in cost, if permitted to reduce *prices* of commercial products, would result in price structures that would be ruinous to the particular industry after the termination of the emergency period. The variances should be analyzed in such manner as to segregate the component variances due to performance or changes in prices, from those due to increased volume. The volume factor is bound to result in favorable variances on commercial work which represent additional profit due to sharing the actual fixed or stand-by costs with the supplementary Government work, and this particular credit variance is a profit that belongs to the contractor. The Government also profits on its work by being charged a smaller share of the fixed costs on its contracts than it would sustain if it did not share the fixed charges with commercial work. If standard costs are applied in costing the Government work, the credit variances due to volume in excess of standard which are applicable to the Government work must be credited to the Government.

One exception may be noted, however, to the principle that savings from lowered costs on commercial activities due to increased total volume belong to the contractor. In the case of plant facility construction contracts, it is the theory

of the Government that none of the fixed charges for the contractor's general expenses are to be included in the construction cost. That is another way of saying that the other operations of the contractor's business must continue to stand a normal overhead, it being assumed that the general overhead would have been incurred anyway, even if there had been no construction contract. This applies to executive salaries, corporate taxes, and most of the items we usually classify as administrative and general expenses. This exception appears to be imposed even if the other operations of the contractor have been discontinued by Government edict. The theory is that the contractor will make his profit on the supply contract to be performed after the construction has been completed.

Government auditors, usually, will agree to the temporary use of either standard costs or normal burden rates to expedite current reimbursements, and subject to later adjustment to actual costs. I believe it will be possible to arrange for such adjustments on an annual basis, on a long-term contract. The correction factors, undoubtedly, will need to be applied in some detail to achieve a reasonably accurate apportionment. It is doubtful, for example, that the apportionments between commercial work, fixed-price contracts, and cost-plus-fixed-fee contracts can be made on a factory over-all basis;

the variances from normal burden rates, undoubtedly, should be departmentalized and traced back to the original charges to the limits of reasonable expenditure for clerical expenses. The variances should be related to the total costs incurred rather than to the charges billed; that is, credit variances should be disposed of with due regard to inventories.

In the absence of an elaborately developed standard cost system, with a completely established procedure for the analysis of the numerous factors which cause variances, it would appear that any standards or normals in use which result in unusually large variances on the war contract work should be promptly revised. The variances must be disposed of to the satisfaction of the Government auditors; if they are so great as to appear to destroy the reasonableness of the first cost computations, a great deal of difficulty with the Government auditors undoubtedly will result. Any computation for the disposition of the variances will be less accurately distributed than the first computations, otherwise the cost accounts would be entirely rewritten. This situation must be avoided by close attention to the variances incurred from month to month.

*Direct and Indirect Expenses:* In the Government's prescribed treatment of expenses, there is greater

stress laid upon the determination and segregation of direct expenses than has been customarily used by industry. Government auditors dislike distributed indirect expenses and much prefer a large basis for distribution and low percentages of overhead. Under this point of view, the greatest possible proportion of the total pay rolls should be disposed of by direct charges; upon occasions the auditors have even gone to the extreme of requesting that executive salaries be charged direct. This general principle is not contrary to the best accounting practice, in fact, most cost accountants will agree that distribution of expenses from their source is to be preferred, wherever possible, to the pooling of expenses and distribution of the lump sum. The commercial rule that "direct expenses" may be treated as "indirect" if the costs of treating them as "direct" are unreasonably high, and if the difference in the end result is immaterial as compared with the clerical cost involved, should still prevail.

Under Section 26.9 of T. D. 5000 there are three tests of "direct" expenses:

1. They must be "properly chargeable" directly to the cost.
2. A detailed record must be kept by the contractor of all items of a similar character.
3. No item of a similar character which is properly a direct charge to other work may be included as a part of any indirect expenses prorated to the contract.

As the contracts uniformly refer to good accounting practice as the standard of accepted allowances of cost, we must rely upon that to interpret the first requirement that the items must be "properly chargeable" directly to the cost. There appear to be at least two approaches. The first is adequately described by the term "causal responsibility," as used by Mr. Harry Howell in his paper at the St. Louis N. A. C. A. convention in 1940. This approach is at the source of the expenditures; the other is at the receiving end and is the test as to what extent the contract received benefit. We must ask as to each item:

1. Did the contract cause the expenditure to be made?
2. Was the existence of the contract responsible for the expenditure?
3. Did the contract receive all of the benefit from the expenditure?

If the answers to these questions are in the affirmative and the tracing of the causal responsibility or benefit is complete as to the particular contract standing alone, the expenditure is a direct charge.

"Indirect" expenses are those of joint benefit to several contracts or lines of product and those expenses incurred for the business as a whole which are of some benefit to the Government. They exclude all expenses which have a direct causal responsibility or benefit to only one contract, and they exclude those expenses incurred for the business as a whole but which by

Government definitions are unallowable elements of cost because they benefit only the corporate entity and do not benefit the Government. The Comptroller-General of the United States has the final word, and his opinions show a strict interpretation of what is "related to the contract." If no relation can be traced, the expenditures apparently fall within the class, "contemplated to be borne by the contractor." Every item to be included either in "direct" expenses or in distributed "indirect" expenses must have, in some degree, a relation of causal responsibility or of benefit to the contract.

In the revision of any cost system to meet the requirements of accounting for war contracts, the importance of adequate departmentalization of the plant can hardly be over-emphasized. If the Government production is in a completely separate plant, all of the expenditures at that plant have a direct relation to the contract, and there is little difficulty in proving the right to reimbursement. If the work must be carried on in a plant with commercial work, the greater the extent to which the Government work can be segregated in departments devoted 100 per cent to that purpose, the smoother the arrangements will work.

One difficulty arises before production begins in a plant where direct labor is the usual basis for overhead distribution. The same

difficulty, also, is likely to arise towards the end of the contract period after production labor has been discontinued. Several months may elapse during which executives, engineers, purchasing agents, production-planning men and others may spend a great portion of their time on a new Government contract. Under the usual distribution of expenses, no charges could be made to the contract, because there is no productive labor on which to base the distribution. In this situation, those men, and all men of their service classification, should be requested to make daily time reports, so that the directly related services may be charged directly to the contract. Moreover, special cost studies should be made to determine burden rates to be added to the direct charges for their salaries, for these men use desk space, heat, light, elevator service and other services. Such special burden rates can well be computed by establishing the building or buildings in which the work is done as cost centers and arriving at a distribution of the total building costs based upon the pay roll for the entire building.

The requirement that if certain items customarily treated as overhead expenses are singled out for treatment as direct charges, then all items of a similar character must be so treated, causes some difficulties. It is a proper requirement. In practice, it has to be adminis-

tered with reason, and frequently the resident auditors will agree that while many items have the same account classification in the books of account, they differ even within that classification, and there must be a residue that cannot be charged direct and which may be included in the distribution of the "indirect" expenses.

*Segregation of Selling Expenses:* Some concerns still carry, in their general accounts, two general divisions of expenses: manufacturing and commercial. The commercial expense controlling account is unsuited to present conditions whether operating fixed-price or C. P. F. F. contracts.

This account should be divided into two accounts for adequate control: (1) selling expenses, and (2) administrative and general expenses. As each of these groups, ordinarily, will contain certain unallowable expenses for Government contract accounting, it would be desirable to segregate the unallowable expenses under each classification in separate controlling accounts. All four accounts should be closed directly to the profit and loss account for general statement purposes, but the two representing expenses allowable for Government contract accounting will be available for computing the necessary cost distributions. For cost accounting and Government inventory purposes, the allowable ad-

ministrative and general expenses account may be distributed, as suggested in T. D. 5000, directly to contracts, on the basis of total manufacturing and installation costs incurred for the accounting period, i.e., usually the current month. The contracts, of course, include all commercial, fixed-price and C. P. F. F. contracts or orders. Another method might well be to distribute to both manufacturing and selling operations, on the basis of total pay rolls under these divisions for the month. The allowable selling expenses, also, according to T. D. 5000, may be distributed directly to contracts and orders, either on a basis of sales completed during the period, or total manufacturing and installation costs during the period. If the total pay roll method has been used for the distribution of allowable administrative and general expenses, the allowable selling expense plus its pro rata portion of the distributed administrative and general expenses would be transferred to general manufacturing for further distribution.

**Sales Branches:** Many concerns being converted entirely to war production have extensive selling branch organizations. Attention is invited to the wording of T. D. 5000, which lists among the items which are excluded from the cost of performing a contract or subcontract, the "expenses, maintenance and depreciation of excess facilities

(including idle land and building, idle parts of a building, and excess machinery and equipment) vacant or abandoned, or not adaptable for future use in performing contracts or subcontracts." If branch plants are adaptable to and are being converted to war use, it appears that the expenses, maintenance and depreciation of such facilities should be included in the allowable selling expenses and distributed with other expenses of a general nature over all of the production of the concern.

**Idle Plant Facilities:** Aside from the problems of selling branches, we may have manufacturing facilities which are clearly to be excluded in our distribution of expenses. It appears evident, in addition to the quotation just given, that in respect to all permitted distributions of indirect expenses, all elements of expense therein must be "properly incident to and necessary for the performance of the contract," or again, from paragraph (j) in Section 26.9 of T. D. 5000 "all items which have *no relation* to the performance of the contract or subcontract shall be eliminated from the amount to be allocated." The wordings of these definitions, and the published opinions of the Comptroller-General indicate that *losses* of the contractor, as distinguished from costs and expenses of the contractor in connection with facilities needed for the contract or of present or future benefit to the Government,

are not contemplated to be includable in Government costs. In other words, it does not appear that the Government intends to underwrite or subsidize the fixed charges which the contractor may have as a result of his capital investment in plant assets not suitable for war use any more than it subsidizes the small concern that may be forced by war conditions to go out of business. If it becomes necessary, as a part of the conversion of a plant to war use, to place certain machinery and equipment under tarpaulins out in the yard until after the emergency, such machinery should be segregated in the accounts and its carrying charges should be omitted from the cost computations. If, on the other hand, the machines can be converted to war use, and are expected to be so converted, they constitute *stand-by equipment*, and the carrying charges should be claimed in the overhead distribution accounts.

*Depreciation and Amortization Allowances:* One question that arises is whether we are bound to the same depreciation allowances permitted by the Treasury Department. Every case, of course, stands by itself. If our depreciation for tax purposes is based on corporate cost of the assets, and if our tax return rates of depreciation, applied over the years, have resulted in net asset values that are fairly representative of the remaining useful lives of the

assets today, there would appear to be no reason why the same computations, permitted by the Internal Revenue Code should not be acceptable for cost purposes.

It appears to be generally recognized, however, both by the Treasury Department and the business public, that many depreciation schedules, particularly those resulting from cumulative computations over a long period of years have become quite distorted from present facts. During the 1920's many concerns were over-generous in depreciation allowances, and sometimes these rates were even carried through the depression years. For the past six years or more, the Treasury Department has been consistently reducing the allowed depreciation rates, in many instances basing the allowances upon the idea that the accumulated reserves should not be allowed to rise above some set limit, thus obviously understating depreciation allowances *currently*, to even up for too generous allowances *years ago*.

It appears to me that a contractor finding himself in this position with the Treasury is entitled to a fresh start when dealing with the War Department or the Navy Department. The cost determined for Government contracts may run but a short period relative to the lives of standard equipment converted to war use. The contractor is entitled to recover whatever is

the actual cost due to wear and tear, obsolescence and other factors during the period of his contract. If a contractor had written his property account down to one dollar, or if all of his property had become fully depreciated, there would be no question of his right to restate his property accounts in order to compute the depreciation sustained on the war work. By the same rule, he should be permitted a fresh start if his asset and depreciation reserves are materially out of line with the present useful condition of the property. Tax-wise, since income taxes appear to be here to stay, a taxpayer gets his depreciation either in one year or another, but the period of the war contracts will, we hope, not be sufficiently long to guarantee the contractor this protection.

Is accelerated depreciation an allowable element of expense in war work?

T. D. 5000 provides, as an allowable element of cost, that "In making allowances for depreciation, consideration shall be given to the number and length of shifts."

The E. P. F. and D. P. C. contracts for Government financing of plant facilities provide options to the contractors for purchasing the facilities at original cost less allowances for depreciation after the termination of the emergency. These option clauses quite uniformly state the following annual depreciation rates (which are

higher than rates ordinarily used under normal conditions) to be used in determining the recovery purchase prices under these contracts:

Buildings and improvements.....	5 pct.
Machinery, equipment, furniture and fixtures.....	12 pct.
Portable and durable tools and automobiles.....	50 pct.

Section 8.2404 of the Navy Department regulations for the "Procurement of Naval Supplies" includes the following comment concerning accelerated depreciation as an element of the cost of supplies:

Where plants are operating on two shifts, the depreciation rate may reasonably be 150 per cent of the normal rates for a single shift. Where the plant is operating on three shifts, the depreciation rate may be extended to 200 per cent of the normal rate.

Quite obviously, then, we have official sanction for the *principle* of accelerated depreciation.

Several points may well be borne in mind on this question:

1. The combined costs of maintenance and depreciation should be considered together. Excessive wear and tear may be made good during the accounting period by excessive expenditures for repairs and maintenance.

2. If the normal rates previously in use for the depreciation computations included a substantial allowance for obsolescence, supersession

or inadequacy, a considerable amount of additional wear and tear may be experienced before any adjustment of the rate is in order. For example, if a machine could be used for 20 years on a wear and tear basis, but because we expected to want a larger or better machine in 10 years, we were using a 10 per cent rate instead of 5 per cent, then the machine can receive double the use without warranting any increase in the rate of depreciation. The 10 per cent rate then becomes 10 per cent for wear and tear rather than 5 per cent for wear and tear and 5 per cent for inadequacy, with no increase in the total charge to cost.

3. The same machines may have quite different life histories in the hands of different owners. Some factors to be considered, other than the mere number of hours of machine use, are (1) the frequency of inspection of the condition of the machines, (2) the speed-up over the designed r.p.m., (3) possible overloading in excess of the designed load, (4) the use of unskilled operators, and (5) rapid deterioration when ordinary maintenance is omitted due to the pressure of production.

What about amortization as an element of cost? This question may be of great importance to a contractor if the emergency plant facilities have been provided with the contractor's own capital, particularly if he operates under a cost-plus-fixed-fee contract. It has

been clearly shown to be a policy of the Government not to permit special amortization of emergency plant facilities as an element of cost. This policy was explained a year or more ago to be (1) an effort to prevent inflation by keeping down the prices of the things the Government had to purchase that would be made in special war plant facilities, and (2) an effort to prevent alleged mistakes made in World War I, whereby the Government, by paying prices for supplies, which prices permitted the contractors to recover their capital investments, made so-called "gifts" to industry of valuable plant facilities.

The Administration developed the so-called tax-compromise idea, whereby contractors were permitted amortization for tax purposes, thereby recovering a part but not all of their capital investment through a reduction in taxes, but were not allowed recovery of special plant investment in excess of normal depreciation in the price of their products sold to the Government. This tax compromise was enacted into legislation in Section 124(i) of the Revenue Act of 1940, which required Certificates of Government Protection and Certificates of Non-Reimbursement to put teeth into the policy. This section proved, however, to be such a bottleneck to the war production program that it was repealed.

How does the situation stand

today? Evidently we have fallen back upon the general provisions of law and Government contract regulations.

It should be recalled that prior to the advent of O. P. A., the War and Navy Departments considered amortization of special facilities a proper element of cost and they established a procedure for guaranteeing such protection by special negotiation. It is noted also that Section 8.2404 (c) (8) of the Naval Regulations for the "Procurement of Naval Supplies" provides that amortization may be allowed as an element of cost where the purchases of special machinery and equipment have been approved in advance by the Navy.

The Treasury Department opposed the enactment of the amortization sections of the Internal Revenue Code on the argument that the ordinary depreciation, obsolescence and loss of useful value provisions gave the contractors ample right to recover the full costs of their investments for tax purposes. The difficulty there was that the deductions could be taken only *after* the event of the loss had taken place, and that current allowances to provide against the probability of the loss were denied. Treasury interpretations of the word "obsolescence" as an allowable element of cost under T. D. 5000 express the same view.

It is presumed that the auditors for Government contracts are still

influenced by the same policy which brought about the enactment of Section 124(i). It may be that many contractors can recover all they consider necessary by means of accelerated depreciation. There may be instances, however (such as, for example, a shipyard constructed with private capital, the use of which for the entire period of the normal wear and tear life of the assets may be very problematical) where the actual cost to the contractor will not be determined unless an amortization allowance is included. The burden of proof, undoubtedly, will rest heavily upon the contractor; however, a claim should be made and a cost-plus-fixed-fee contract should not be closed until the facts are determined, even if it is necessary to hold the matter open until after the emergency to obtain a retroactive view of the facts.

*Bases for the Distribution of Manufacturing Expenses:* Section 26.9 of T. D. 5000 states that distribution on the basis of direct labor charges will be satisfactory, but that other bases may be used, depending upon "all the facts and circumstances." If better methods have been in use they should be continued. Special cost studies may frequently be required in order to produce evidence to the Government auditors that rates used for handling charges, floor space computations for depart-

mental distributions, or power-plant schedules long in use are accurate under present operating conditions. The established methods may be sound in principle, but, in view of the frequent redepartmentalizations, reclassifications of expenses and conversions from commercial to war production, such established methods or schedules may very likely need review.

If the interpretations of direct and indirect labor are modified by the considerations previously discussed, the larger amounts classified as direct labor will require prompt reduction downward of normal departmental burden rates.

If service department costs (for example, power expense) have been distributed in two parts, (1) charges for fixed or stand-by costs allocated on a designed capacity or "ready for use" basis, and (2) charges for the variable factors of the service department costs (that is, the service actually used basis) there would appear to be every reason to continue this practice. The facilities inherited by the converted plant may bear little relation to the facilities that would be redesigned and installed today. Nevertheless, they are the actual facilities in use for the war production. The distribution of the total fixed service department plant investment costs should be revised according to present department utilization and the present machine requirements, but it would appear to me, under

the actual cost theories, no segregation for capacity in excess of present needs would be required. In other words, the Government may have inherited a power plant which is not well designed or not economical for the use being made of it today, but the total actual costs may be applied.

*"Reasonable" Expenses:* Somewhere in every Government contract, there will be found the word "reasonable" in relation to allowable expenses. The interpretation of this word has been a shock to many executives. Apparently the interpretation is very different under a peacetime free enterprise, competitive economy, wherein a court may consider that compensation in excess of \$1,000,000 a year is not unreasonable for top executives of a giant corporation, because of the competition for men of such caliber, as compared with a wartime, planned and "total-war" economy, under which citizens are being drafted regardless of personal abilities for military service at \$21 per month.

I understand that the Navy and the Air Corps have established upper limits of \$25,000 a year for executive salaries to be included in costs; that the Navy regards \$9,000 a year as the top salary for field construction work; that the Ordnance Division of the Army requires special approval for salaries in excess of \$12,000 a year; that

bonuses are permissible only to the extent of 10 per cent upon salaries up to \$3,000 a year, and that bonuses to executives are considered to be "not related to the contract" and "expenditures to be borne by the contractor out of his fees." Such limitations are not entirely new, as, I believe, the Merchant Marine Act of 1936 limited executive salaries, in the costs of contracts entered into by the Maritime Commission, to \$25,000 a year.

We encounter similar interpretations of the word "reasonable" in the allowed per diem rates for traveling expenses. These rates as permitted by the Air Corps were \$10 per diem for executives and \$6 per diem for others, until late in 1941 when they were increased to \$15 and \$8, respectively.

The War and Navy Departments, also, insist upon the advantage of the Government rates (generally 60 per cent of commercial rates) on telegraph services. Each contractor must clarify his position with respect to this ruling. In certain instances, arrangements have been made to have separate invoices submitted by the telegraph companies for services on the Government contracts, and these invoices are paid directly by a Government Disbursing Officer after certification by the contractor, and they are thus excluded entirely from the contractor's accounts and costs. Under a Navy Department ruling, the 60 per cent limitation on telegrams

applies only on "direct" charges and does not apply to telegrams included in "indirect" expenses prorated to a contract.

Contractors should protect their rights under their contracts in respect to all arbitrary limitations of expenses, by *written* protest or notice. In order to expedite current settlements, such excess expenses should be omitted from the expense distributions by segregation into an Unallowable or Suspended Expenses Controlling Account, supported by detailed schedules for future reference. Needless to say, such controlling accounts should not be used in computations of inventory valuations, and they should be closed into the profit and loss accounts at each closing date. A permanent record should then be retained for future reference.

It is only fair to state that the Government, on cost-plus-fixed-fee work, does permit the inclusion of certain costs which a commercial customer might consider unreasonable, e.g., the cost of training employees in the necessary skills to perform their work, the cost of spoiled and wasted work, reworks, advances in labor and material costs due to general price trends, and other items which, under the theory of "actual cost," are directly related to the contracts.

**"Personal" Expenses:** The opinions of the Comptroller General  
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## A Soldier's First Four Months of Army Life

BY GEORGE B. TALMAGE\*

### *Part 1. Induction—the Reception Center*

A man's induction into the Army of the United States takes him from a way of living as he pleases to a period of conversion to Army style of living. This change first occurs when a new soldier arrives at what is known as a Reception Center. The first day or so he spends in a series of moves, being interviewed, given I. Q. tests, being vaccinated, receiving clothing and equipment and listening to a series of lectures. Then follows a period of Army life that is not too desirable. Each day a shipping list is posted telling where the various men are to be sent for their base training, i. e., informing each man for the first time whether it will be Infantry, Armored Division, Field

Artillery, or some other branch of the service; how far from home it will be; and when he will leave.

Until a soldier's name appears on a shipping list, he is subject to what one can best call "detail work." As no training is attempted at Reception Centers, he is given all kinds of work to keep him busy. Assignments for the day are made immediately after breakfast. If one is lucky, he may get an easy job, such as working in the warehouse where he passes out clothing to other new men just being inducted. Then again, the group one is with may be picked to unload a freight car. Or, perhaps one will be routed out of bed at 5:00 A.M. for a day of "K. P." (kitchen police), which usually lasts until after 8:00 P.M. An amusing duty is guard duty on a Sunday when a lot of visitors are in the camp. This consists of standing at a particular corner directing traffic toward the parking lot and at the same time trying to answer numerous questions about where various organizations and buildings are located. In two busy days a soldier can hardly learn where all the buildings on an Army post are located, so the best he can do, if he does not know the answer, is to direct the people to a building

\*Mr. Talmage was a member of the New York staff until his induction into the Army. At the time of writing this interesting article, late in June last, he had advanced from "buck private" to Technician Fifth Grade, and was in charge of the Accounting Section of the Finance Office of his unit with two privates as assistants. He explains that "these assistants take care of the preparation of the daily reports and the posting of the books, leaving me free to answer the correspondence in connection with the section, to review and audit all of the reports and vouchers before they are submitted to Washington, and to investigate and adjust any changes that have to be made in the accounting classification on vouchers."

where they can secure the proper information.

Then at last, after reading the lists each day, one finds his name up for shipment. There follows a round of turning in bedding, packing, having barracks bag inspection, and forming to march to the railroad station. It is usually a willing move to be on one's way away from the Reception Center.

#### *Part 2. The Base Training Period*

The next phase of Army life usually takes place in what is known as a Replacement Training Center. Here a recruit starts to learn the many basic phases of Army training and regulation—learning to drill, seeing training movies, listening to lectures, learning to clean and care for a rifle, taking long walks, and learning to live in a military manner.

Perhaps the first thing a new soldier has to learn is how to stretch \$21 over a month. The problem is quite different from civilian life, where one is usually paid several times a month, as the Army pays only once a month. When a soldier is transferred just before pay day or is not in camp to sign the payroll at the proper time, he may have to wait another month to be paid. Army pay rates require one to give up many of the luxuries of life which he is used to enjoying. The Army partially helps the situation by giving no pass to leave camp the first few weeks. During the train-

ing period passes are not too liberal, so one does not have the opportunity to spend money as he formerly did. The new U. S. Army pay rates will assist the new soldiers in mastering this problem.

A soldier must allocate a portion of his pay to laundry and dry cleaning bills. In general the cost of the Government owned laundry service is very reasonable, and as it is deducted from the soldier's pay before he receives it, he has no trouble in paying for it! During the summer months when the Sun Tan uniform is worn, one can send all his clothes to the laundry. In the wintertime the wool olive drab uniform presents a different problem. Wool shirts must be dry cleaned, for if sent to the laundry they shrink beyond recognition. Blouses and field jackets must be cleaned and pressed quite often to keep them looking neat. Keeping trousers pressed is a difficult task, as the leggings that are usually worn for drill and field duty do an excellent job of massing them. Meal time is another hazard for clothes as Uncle Sam does not furnish napkins, and no matter how careful one may be, now and then something slips. Every once in a while someone will drop a dish or a pitcher, then look out!—for some of the fellows sitting at the table will find most of it in their laps. So off to the cleaners the clothes must go, but that all goes with the Army.

Another clothing problem is learning to get along with the mini-

mum of clothes. In civilian life one usually has enough of a wardrobe that he does not have to worry about having clothes at the cleaners or in the laundry. For a soldier in Uncle Sam's Army, especially since the United States entered the War, it is a different story. He is issued a minimum of clothing and must learn to get along as best he can. It means washing clothes himself on occasions, as laundry service usually takes at least five days and often more. Figure out what a soldier with two pair of summer wash trousers will do when for some reason or other the laundry is delayed in being returned some week. Soldiers are furnished two sets of fatigue clothes to wear when doing detail work, which helps the situation a bit.

All extra clothes not being worn must be kept displayed in a neat and uniform manner. This prevents the lazier type of soldier from hanging his clothes in any old way and helps dress up the appearance of a barracks or tent. Another item that a new soldier must learn is how to make a bed in the proper manner and with no wrinkles showing. Beds are usually required to be kept in a neat manner until after recall in the afternoon. If one wants to take a bit of a nap after dinner at noon-time, he must always straighten the bed before leaving it. However, one soon gets in the habit of keeping things in a neat and orderly manner, as these touches require only a

few seconds, and the appearance of his quarters is improved remarkably.

Thinking again of the lazier type of soldier, usually referred to as a "Gold Bricker," brings up the subject of detail work. In the running of an Army unit there is always a lot of undesirable work to be done. K. P. duty, sweeping and mopping the barrack's floor, washing windows, cleaning the shower room, policing the grounds to pick up cigarette butts, waste paper and the like, firing the furnace, and other similar details all fall within the term detail work. These jobs are not very enjoyable, and one usually gets tired of doing them. However, it really is not too bad when every one pitches in and works, for a willing work period usually completes a job in a short time. Here is where a gold bricker can really shine. He is usually not a willing worker and keeps trying to see how much work he can get out of rather than how he can help to complete the work rapidly. In the end these fellows usually take a beating, for the non-commissioned officers soon learn who the slackers are, and whenever there is a special detail to be performed, they usually get the task and do a lot of beefing about it.

The idea of the majority having to put up with a few perpetual gold brickers brings to light another item a new soldier usually has to learn, i. e., how to get along with fellow soldiers and their pet likes

and dislikes. Consider a typical barracks with 10 windows, and 25 men to decide how many of them should be open how wide each night. Radios also present a problem, some fellows wanting all music, others news broadcasts; some refusing to turn off soap operas, and others playing theirs loud enough to be heard in the next barracks. Another pet pastime of some soldiers is to write letters or to read until lights out time, then to start talking to a fellow across the room in a tone loud enough to be heard the length of the barracks, just when every one else wants to sleep. Others have the habit of coming in after the lights are out, slamming the door as they enter, and tramping across the room like a ten ton truck. Such things have to be put up with in the Army and usually not much can be done about it. However, it is good training in learning to refrain from complaining about such things, for perhaps the very complainer does other things equally as much disliked by others.

The subject of dislikes brings to light another thing that happens quite often in Army life which no soldier likes. This is the amount of waiting around that one must do on numerous occasions. Whenever a soldier wants to go to the theater, it usually means lining up in a long line to await his respective turn to buy a ticket, unless he can find a friend who is already in the line and will secure an extra

ticket when he purchases his. The telephone is another line forming attraction. Any evening between 6 and 9 P.M. there is always a line outside the telephone booths. Each time a soldier sees another nickel dropped in the box, it means his waiting time is increased another five minutes. However, telephone conversations are usually so enjoyable to a soldier that it is worth standing in line to secure a phone.

Learning to endure such things is a part of the soldier's base training as such readjustments of living habits help bridge the gap between civilian and military life. A soldier must try to lose all of his undesirable traits and acquire a more community attitude toward others.

### *Part 3. Transfer to Permanent Organization*

The third phase of Army life starts near the close of the basic training period. Each soldier starts to wonder to what outfit he will be transferred, where it is located, what the camp will be like, how many of the friends he has made at the present camp will be transferred with him, where his other friends will be sent, how soon the transfer will be made, whether the chow (food) will be better or worse at the new location, whether or not he will have as much detail work to do, and a million other things. When he finally learns the news concerning his particular transfer, he starts trying to find out all he

can about the camp to which he is to go. Again he has the problem of packing, only this time it is usually much more difficult, for he has received more Army clothing and equipment and has accumulated a lot of other personal belongings, all of which have to be stuffed into two barracks bags and a small handbag.

Finally the shipping day arrives. The soldier is on the move again. The trip usually offers the soldier a bit of variety, enabling him to see new territory, to have someone else make his bed for a few days (the Pullman porter), perhaps to enjoy eating in a train diner rather than Army mess hall, and a chance to do as he pleases all day rather than observe a training schedule.

Upon arrival at his new station, a soldier will usually be quite busy for a few days, meeting a lot of new people, getting settled in his new surroundings, finding out where the Theater, the Post Office, the Service Club and the Post Exchange Store are located, writing to all his friends about his new address, and getting settled back into the military life. The intensive military training program of a soldier starts at this point.

#### *Part 4. Army Life in General*

Two items of which a soldier usually gets plenty are calisthenics and drill. At times soldiers become tired of such training, but after a while they become a part of his

daily routine. The thought of calisthenics the first thing in the morning can seem terrible when one is about to roll out of bed at an early hour. However, when a soldier has completed the calisthenics, washed and dressed, and sits down at the breakfast table with a good appetite, he can appreciate the value of the calisthenics he was required to do early in the morning. The marching drill that all soldiers are put through is good training in posture, excellent exercise, promotes rapid thinking and action, and improves their coordination. If for some reason a soldier is assigned to a duty where no drilling is required, he will usually begin to miss it after an absence and will yearn for a session of drill now and then, just to keep in practice.

Another item that begins to grow on a soldier is Military Discipline and Courtesy. A soldier's handbook tells him that the purpose of military discipline "is to teach him obedience, loyalty, team play, personal pride in his organization, respect for the rights of others, love of the flag, and the will to win." To some, at first, this training seems useless, but as time goes on these things become a natural part of a soldier's daily routine. Military courtesy is that portion of the discipline routine which causes one to be polite and considerate of his comrades, whether they be of a higher or lower status. This training can't help but make a soldier a

better man to serve the world—both in the Army and in civilian life after his discharge.

In civilian life a person, upon completing his day's work, is usually free to go where he desires whenever he pleases. Under military control such a policy would never do, since an Army works on a twenty-four hour per day basis. Thus it is necessary to have what is known as a pass system. Passes range from six hours, to overnight, and on weekends for various lengths up to forty-two hours. Usually they are not available as frequently as most soldiers might desire, but one has only to think of the many fellow soldiers who are overseas or at distant bases, and he can be thankful that he has a pass and can go to town for a short visit now and then.

The thought of being able to go to town brings up the question of what the soldier will do when he gets there. Most entertainment costs money, and a soldier's \$21 per month (for the first four months) will not allow for very much of it. A lot will depend on where he is stationed. Usually the ratio of the population of the town near an Army camp to the number of men stationed at the camp has a lot to do with how the soldiers are treated and respected. A large town with a small number of soldiers stationed near by can offer a lot of entertainment to the service men. There are all kinds of organi-

zations in such a town to sponsor dances, theater parties, dinners, and other forms of entertainment free of charge. Also, it is not very difficult to secure enough lovely young ladies to balance the party. On the other hand, a small town can offer only a limited variety of entertainment. The thing a soldier usually likes to do best is to dance. The United Service Organizations certainly do their utmost to help out at this point, for the clubs they operate are always welcome spots to service men. A typical U. S. O. dance is almost always good, but the ratio of soldiers to the ladies present usually determines whether it will be enjoyed by all or not. A long stag line means the fewer are the chances each soldier will have of securing a partner to dance with and the less the affair will be enjoyed. In War time, one should not expect the same entertainment that he has been accustomed to having in civilian life; rather he should be thankful for the opportunity of doing some dancing at no cost to himself.

On a military post itself the forms of entertainment offered the soldiers are rather limited. There is always the movie theater, which shows the best movies as they are currently released, if one does not mind standing in line to enter. When occasionally a radio program is broadcasted from the post, every effort is made to permit as many as possible to see the show, but of

necessity the number of tickets available is limited to the size of the theater. This same limitation applies to U. S. O. shows that are presented at the camps. The Post Service Club usually offers some sort of attraction each evening. Often it will be a band made up of soldiers or perhaps a ping pong contest. The Service Club offers a variety of recreation for a soldier in his spare time, and the hostesses at the Club are always willing to help a soldier in matters like sewing on a button that has come loose, as they so often do, (although, of course, a good soldier should learn how to sew on his own buttons).

The need for assistance in some cases cannot be remedied so easily as the problem of a missing button. In such cases the Post Chaplain is always a willing listener and adviser. On each Post there are usually a number of Chaplains of various faiths who conduct a fine variety of religious services both on Sundays and during the week, thus permitting one, if he so desires, to keep up his devotional thinking. The Chapels are of a plain yet artistic construction and each contains an electric organ. The hymn singing at the services is usually devoid of the quantity of feminine voices one is accustomed to hearing in a church, but the lusty volume of a group of soldier boys singing is hard to beat. On occasions when a soldier has a weekend pass, he can go to church in town, where he is

usually welcomed most heartily. In fact, it is usually difficult to get out of a city church without being invited to someone's home for dinner, followed by an enjoyable afternoon. Occasional dinners of this type off the Post help a lot toward making a soldier's spare time enjoyable.

During his spare time a soldier has the opportunity of doing his letter writing and reading, but under rather unusual conditions. In a barracks or tent there are usually no tables and very few chairs, so when writing, a soldier has to sit on the edge of his bed and use his knee for a table. If he desires, he may write or read in the company day room, but not without disturbance from a radio or a phonograph playing, ping pong balls flying around, and a good bit of loud talking. Speaking of day rooms brings to light a good deed which many civilian organizations have done by sending furniture, games, phonograph records, magazines, books and the like to the various day rooms, thereby adding to the soldiers' enjoyment of their free hours. The Service Club is always an excellent place to do letter writing for there are plenty of tables there, and it is rather quiet. Also, free stationery is usually available if one desires it. In most Service Clubs there is an excellent library where a soldier can read or borrow books to take to his quarters to read. Many of

these books were donated to the libraries by civilian organizations. They are all well shelved and catalogued for ready reference.

The way a soldier uses his spare time can have a lot to do with how he enjoys his Army life and what he gets out of it. Some soldiers do a lot of what is commonly called "bunk fatigue," which means flopping on their beds for a nap whenever they can. If a soldier wants to use his spare time that way, he is welcome to it, but that type of soldier is usually the one that spends most of his evenings drinking beer, returns to the barracks just prior to taps, and is usually the last one to arise in the morning, thus being about last in getting his bed made and thus getting out of most of the clean up work. Another example of time wasting is continual card playing. A reasonable amount of card playing may be excellent for relaxation and mental training, but a soldier who spends all his spare time doing the same thing will soon become stagnated towards what is going on in the camp and in the world. The way some soldiers make themselves like the Army less every day is by always getting into what is known as a bull session, where each complains about everything in the Army. If these dissatisfied soldiers would spend their time trying to figure out how to enjoy the Army more and how to improve their own status, they would usually find

themselves enjoying the Army life.

A soldier interested in enjoying the Army will spend his spare time in useful ways, such as entering into friendly athletic contests, playing ping pong, rounding up a pal and going for a hike, listening to other soldiers tell of their experiences, or by talking to soldiers who are in other branches of the service to learn what their work and duties are like. He can also use a portion of his spare time to keep his shoes shined the way they should be, to repair a tear in his clothes, to sew on a missing button, or to clean some of his equipment instead of waiting until he is ready to wear or use it again and being mad because it is not in the best condition. The initiative a soldier shows is entirely up to him, since the Army puts all on an equal basis when it comes to clothing and equipment issued and the treatment he will receive from his superiors.

Whether or not a soldier enjoys the Army depends a lot on his own attitude toward it all. If he will realize that War is a terrible business and that all must put in their best effort for the cause in order to be victorious, he will find himself enjoying the privilege of serving his country. If he spends his time attempting to do as he should, such as always wearing his uniform in the proper manner, considering it a pleasure to salute an officer, keeping in step with his fellow soldiers when walking down the

street, and conforming to other customs of the service, he will usually find it a far easier and more pleasant life.

Any soldier who so desires can gain all the advantages the Army has to offer. Some of these are an excellent physical condition, improved endurance and posture, and sharpened mental coordination. He will have gained a knowledge of such things as first aid and sanitation, will very often have received good technical training, and will have been given the opportunity to exhibit and improve his leader-

ship ability. From the many inspections he will have been taught to keep his clothing and other belongings in a neat and orderly manner and to keep his own appearance presentable. From his discipline and courtesy training he will have learned to respect the rights of others and to obey his superiors cheerfully. Last, but far from least, he will have learned to adapt himself to all kinds of people and conditions, thus being better able to live an enjoyable and useful life upon his discharge from the Army of the United States.

## Control and Allocation of Expenses

(Continued from page 15)

have disclosed a very restricted interpretation of the term "personal" expenses. For example, the cost of a chauffeur's license paid for an employee to permit him to drive in connection with his employment, the costs incurred by a contractor for employees while they were traveling on company business to assist them to obtain birth certificates required by federal regulations for admittance to other plants on business for their employers, and similar expenditures to assist them in filing questionnaires with draft boards, have been held to be personal to the employees and unrelated to the Government contracts, even for inclusion indirectly in general overhead expenses. It does not seem to me that a classification of "personal" expenses as unallow-

able expenses is sound, since the motivating force behind these expenditures, when made by the contractor, is the performance of the contract, and, moreover, Section 26.9 of T. D. 5000 specifically permits many "personal" expenses such as welfare expenses, pensions, traveling expenses, and, one might add, even pay rolls.

Contractors should not only reserve their legal rights by written notices to the contracting officers in connection with disallowances such as these, but they should make active protests, written and oral, so that interpretations may, if possible, be brought more into line with the usual business practices that were in the minds of the contracting parties when the contracts were signed.

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**The L. R. B. & M. Journal**

Published by Lybrand, Ross Bros. & Montgomery, for free distribution to members and employees of the firm.

The purpose of this journal is to communicate to every member of the staff and office plans and accomplishments of the firm; to provide a medium for the exchange of suggestions and ideas for improvement; to encourage and maintain a proper spirit of cooperation and interest, and to help in the solution of common problems.

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**Our Washington Office and the War Effort.**

The attention of all our offices has been called to the fact that the work of our Washington office, which over many years had been devoted in large part to serving our clients in the handling of their tax problems, had been expanded to help them in the Washington phase of their war activities. Our office there has recently been handling many matters connected with the

war effort, such as questions relating to war contracts, price administration, priorities, and various other matters arising before United States Government agencies and some foreign agencies. It has been possible to be helpful in numerous cases by securing expeditious action for our clients.

Because of the increasing need being experienced by industry for assistance in war effort matters, it is important that our clients know that our Washington office can be

of help in this field. Direct contact in matters before the agencies referred to is in most instances essential to speedy action. Many of our clients may not be aware of the service we can render in securing appropriate action and in preventing unnecessary delays.

income from \$2,000. It is awarded to the member of the graduating class of the School of Business of Columbia University who has specialized in Accounting and who is deemed by the staff of the School to be most proficient in all courses. For 1942 the prize was awarded to Selwyn Epstein.

### Prizes

During the June college commencements awards were again made of prizes which have been established by founders of our firm.

The ADAM AVERELL ROSS PRIZES, which were established in 1939 by Mr. T. Edward Ross in memory of his brother, were awarded to the following students in the Wharton School of Finance and Commerce of the University of Pennsylvania:

The prize of Twenty-five Dollars to the Undergraduate Student who, having majored in Accounting, gives most promise of success in that field on the basis of character, scholarship and personality, was awarded to Gordon Van Zandt Moyer.

The prize to the student majoring in Accounting in the Graduate School for the best thesis on Accounting was awarded to Mr. John P. Powelson. The title of his thesis was "Cost Accounting for Railroad Freight."

The MONTGOMERY PRIZE, which was established by Colonel Montgomery in 1916, consists of the

### Expressions of Appreciation

At the annual meeting of the Pennsylvania Institute of Certified Public Accountants, held at Sky Top, Pa., June 22-24, 1942, action was taken to express the appreciation of the Institute for the services to it of two of the Founders of the firm of Lybrand, Ross Bros. & Montgomery, who were also among the Founders of the Institute in 1897, and to Mr. Pugh, who became a member of the Institute in 1905.

Mr. Lybrand, Mr. Ross and Mr. Pugh each received an engrossed Certificate of Appreciation for outstanding and exceptional service to the Institute and to the profession of public accounting. In each case the Certificate of Appreciation also made mention of the fact that the recipient had served as president of the Pennsylvania Institute for a period of two years, Mr. Lybrand's election having occurred forty years ago, Mr. Ross' thirty-one years ago, and Mr. Pugh's twenty-five years ago.

W. A. S.

## Notes

The following men have joined the country's armed forces since the publication of the May issue of the L. R. B. & M. JOURNAL:

*Baltimore:*

W. Ernest Issel

*Boston:*

Robert P. Beach

William A. Munroe

Walter H. DeQuoy

Marshal Fabyan, Jr.

William J. Weir

*Chicago:*

Donald A. Bloom

Edward A. Bowen

Robert B. Niemeyer

Oscar A. VandenDooren

Gordon L. Murray

Daniel H. Sanders

*Cincinnati:*

Joseph C. Wessel

*Cleveland:*

Edwin P. Noell

*Dallas:*

Charles W. Leininger

*London:*

G. C. deWhalley

*Louisville:*

Norbert F. Widmer

*New York:*

Harry H. Alling, Jr.

Trygve A. Eliason

Richard W. Ernst, Jr.

Eric Forbes

Wilbert Lloyd

Morris Gunner

Edward W. Higbee

Richard C. Passmore

William A. Benner

Richard P. Pasley

Wallace N. Vreeland, Jr.

Kenneth J. Worland

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Douglas Campbell

Woodley W. Chandler

George D'Angelo

Clyde R. Fry

Richard J. Huehnergarth

Hubert S. Neale

Robert A. Paczula

Thomas A. Scattergood

Watson J. Simons, Jr.

Ronnie A. Thornwall

Raymond J. Wess

Norman K. Allen

C. Arthur Brenneman

George C. Hahn

Harold G. Hunsberger

Charles J. Kinelski

Jesse W. Martin

Lewis A. Martorano

E. Charles Morrill

James H. Rogers, Jr.

Joseph C. Dise

Paul D. Dohan

James J. Engel

George N. Erkelenz

Stanley F. Stress

*Rockford:*

Rudolph Gradishar

*San Francisco:*

Horace D. Brown

Chris A. Buck, Jr.

Henry B. Lane

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The address on Current Problems of Financial Statements, which Colonel Montgomery delivered at the 49th annual meeting of the New York State Bankers Association in New York City on May 26, was published by the *United States Investor* in its issue of June 6,

1942. The address dealt with its subject under the following heads: War reserves; Inventory verification; Last-in, first-out; Foreign subsidiaries; War profits control Act; Other problems; Concerning taxes.

The leading article in the July issue of *Dun's Review* was one by Mr. Staub on Difficulties of Measuring Profits of a War-time Economy.

On June 26-28 Mr. Staub attended the Ninth Annual Regional Conference of the New York State Society of Certified Public Accountants in Saranac Lake, N. Y. This conference, in which the Buffalo, Rochester, Syracuse and Albany chapters of the Society participate, was organized in 1934 while Mr. Staub was President of the Society.

Mr. Knoll served as chairman of the Accountants Division in the recent campaign for the Greater New York-U.S.O.-Joint War Appeal.

Mr. Robert Buchanan, of the San Francisco staff, has been re-elected a director of the California Society of Certified Public Accountants for the coming Society year. Mr. W. G. Draewell, also of the San Francisco staff, has been elected Vice-President of the San Francisco Chapter of the California Society.

Mr. Harry N. Eidswick, of the San Francisco staff, has passed the California C. P. A. examination.

Mr. Paul F. Halloran, Manager of our Louisville office, has been elected to the Board of Directors of the Kentucky Society of Certified Public Accountants. He has also been elected a director of the Louisville Chapter of the National Association of Cost Accountants.

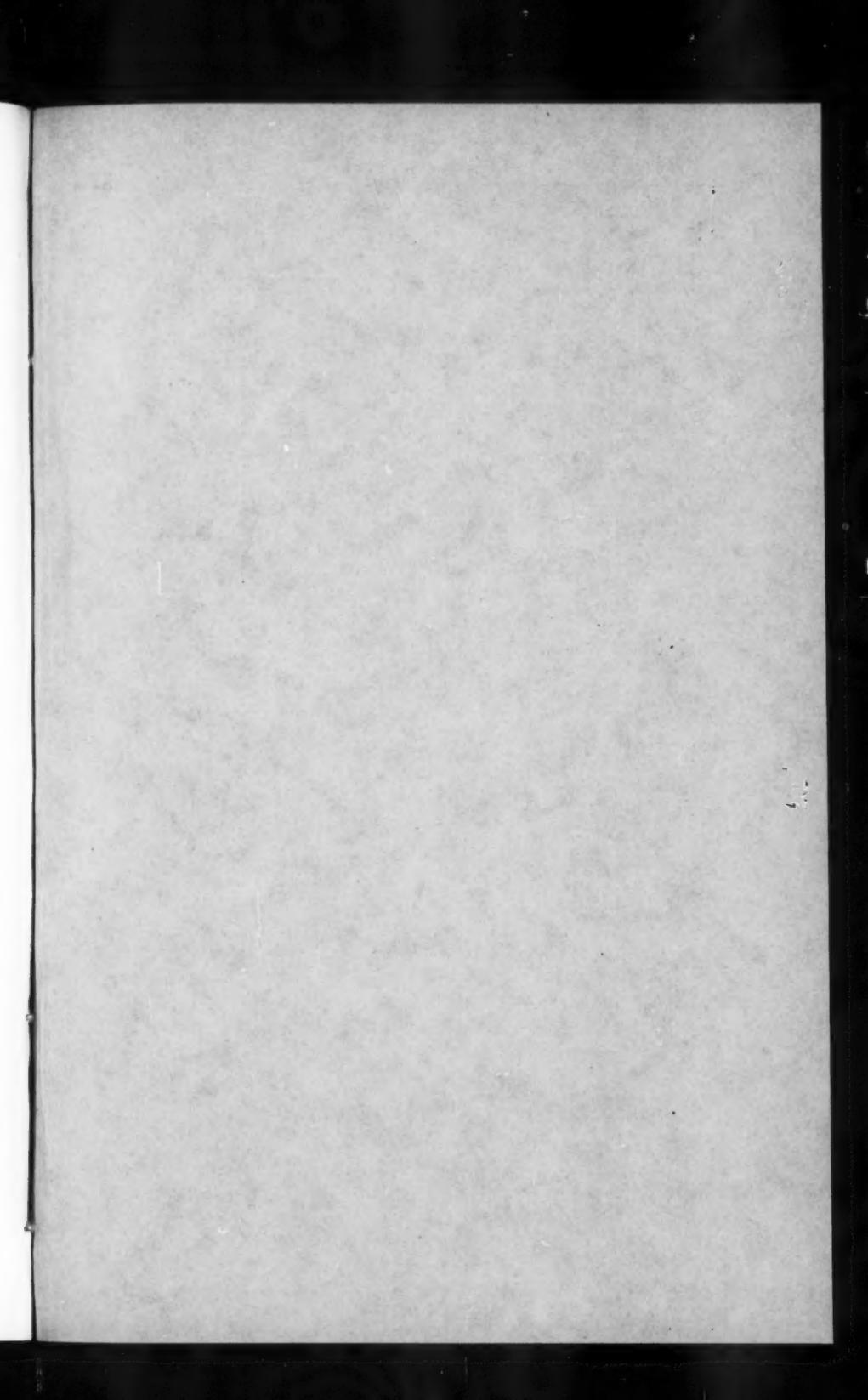
Mr. Ben E. Becker, who has been a member of our Dallas staff since 1928, has become manager of our Houston office. His long experience in our Dallas office, and his familiarity with business and financial conditions in Texas, fit him exceptionally well to carry this new responsibility.

The following members of our New York staff have been notified that they passed the C. P. A. examination held in April last:

William A. Benner   Charles H. Drewes  
Terence A. Cordiner   Robert M. Ormiston  
Martin C. Purala

Mr. Claude W. Hupp, of the Louisville staff, has been cooperating in organizing a local Control of the Controllers Institute of America.

Mr. Carl W. Lutz, of the Chicago staff, delivered a talk at the Vocational Guidance Program of the East Aurora High School. The program was sponsored by the Kiwanis Club of Aurora, Illinois. The opportunities in accounting formed the topic of Mr. Lutz's talk.



## **Lybrand, Ross Bros. & Montgomery**

### **Offices**

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PITTSBURGH . . . . .	Union Bank Building
DETROIT . . . . .	Book Building
CLEVELAND . . . . .	Midland Building
CINCINNATI . . . . .	Carew Tower
LOUISVILLE . . . . .	Heyburn Building
SAINT LOUIS . . . . .	411 North Seventh Street
ROCKFORD . . . . .	321 West State Street
ATLANTA . . . . .	Healey Building
DALLAS . . . . .	First National Bank Building
HOUSTON . . . . .	Shell Building
SAN FRANCISCO . . . . .	2 Pine Street
LOS ANGELES . . . . .	510 South Spring Street
SEATTLE . . . . .	Skinner Building

### **E U R O P E**

LONDON, ENGLAND . . . 3 St. James's Square, S. W. 1

